

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Denmark Township	County Tuscola
Fiscal Year End June 30, 2007	Opinion Date December 17, 2007	Date Audit Report Submitted to State DECEMBER 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

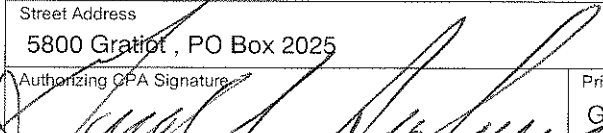
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989)799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	
		License Number 1101007126	

Township of Denmark

Tuscola County, Michigan

Financial Statements

June 30, 2007

TOWNSHIP OF DENMARK

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
General Fund	5
Garbage Collection Fund	6
Fire Protection Fund	7
Police Fund	8
Statement of Net Assets – Enterprise Funds	9
Statement of Revenues, Expense, and Changes in Fund Net Assets - Enterprise Funds	10
Combining Statement of Cash Flows – Enterprise Funds	11
Agency Fund – Balance Sheet	12
Notes to Financial Statements	13-21
Individual Fund Schedules	
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	22-23
Schedule of Expenditures – Budget and Actual	24
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	25-29



INDEPENDENT AUDITORS' REPORT

December 17, 2007

To the Township Board
Township of Denmark
Tuscola County, Michigan

We have audited the accompanying financial statements of each major fund and the remaining fund information of the ***Township of Denmark, Michigan*** as of and for the year ended June 30, 2007, which collectively comprise a portion of the Township's basic financial statements required by accounting principles generally accepted in the United States of America, as listed in the table of contents. These financial statements are the responsibility of the ***Township of Denmark's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the ***Township of Denmark, Michigan***, as of June 30, 2007, or the changes in its financial position, for the year then ended.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 17, 2007, on our consideration of ***Township of Denmark, Michigan***'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise a portion of the Township's basic financial statements. The individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the ***Township of Denmark, Michigan***. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The ***Township of Denmark***, Michigan has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

FINANCIAL STATEMENTS

TOWNSHIP OF DENMARK

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

ASSETS	General	Garbage Collection	Fire Protection	Police	Total Governmental Funds
Cash and cash equivalents	\$ 61,201	\$ 14,582	\$ 1,064	\$ -	\$ 76,847
Investments	50,000	-	-	-	50,000
Due from other governmental units	20,415	-	-	-	20,415
Due from other funds	-	-	-	597	597
Prepaid expenditures	-	-	14,550	-	14,550
Total assets	<u>\$ 131,616</u>	<u>\$ 14,582</u>	<u>\$ 15,614</u>	<u>\$ 597</u>	<u>\$ 162,409</u>
 LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 2,598	\$ 7,383	\$ -	\$ 597	\$ 10,578
Due to other funds	597	-	-	-	597
Total liabilities	<u>3,195</u>	<u>7,383</u>	<u>-</u>	<u>597</u>	<u>11,175</u>
Fund balances					
Reserved for prepaid expenditures	-	-	14,550	-	14,550
Unreserved:					
Undesignated	128,421	7,199	1,064	-	136,684
Total fund balances	<u>128,421</u>	<u>7,199</u>	<u>15,614</u>	<u>-</u>	<u>151,234</u>
Total liabilities and fund balances	<u>\$ 131,616</u>	<u>\$ 14,582</u>	<u>\$ 15,614</u>	<u>\$ 597</u>	<u>\$ 162,409</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Garbage Collection</u>	<u>Fire Protection</u>	<u>Police</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$135,488	\$ -	\$ 20,293	\$ -	\$ 155,781
State revenue	125,852	-	-	1,449	127,301
Charges for services	1,025	87,435	-	173	88,633
Interest	1,845	-	-	-	1,845
Other	4,524	-	-	35	4,559
Total revenues	<u>268,734</u>	<u>87,435</u>	<u>20,293</u>	<u>1,657</u>	<u>378,119</u>
Expenditures					
Current:					
General government	118,486	-	-	-	118,486
Public safety	1,172	-	20,374	69,643	91,189
Public works	66,302	86,330	-	-	152,632
Health and welfare	26,092	-	-	-	26,092
Recreation and cultural	10,000	-	-	-	10,000
Capital outlay	-	-	-	286	286
Total expenditures	<u>222,052</u>	<u>86,330</u>	<u>20,374</u>	<u>69,929</u>	<u>398,685</u>
Revenues over (under) expenditures	<u>46,682</u>	<u>1,105</u>	<u>(81)</u>	<u>(68,272)</u>	<u>(20,566)</u>
Other financing sources (uses)					
Transfers in	-	-	-	68,272	68,272
Transfers (out)	(68,272)	-	-	-	(68,272)
Total other financing sources (uses)	<u>(68,272)</u>	<u>-</u>	<u>-</u>	<u>68,272</u>	<u>-</u>
Net change in fund balances	(21,590)	1,105	(81)	-	(20,566)
Fund balances, beginning of year	<u>150,011</u>	<u>6,094</u>	<u>15,695</u>	<u>-</u>	<u>171,800</u>
Fund balances, end of year	<u><u>\$128,421</u></u>	<u><u>\$ 7,199</u></u>	<u><u>\$ 15,614</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 151,234</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	\$ 151,446	\$ 151,446	\$ 135,488	\$ (15,958)
State revenue	132,000	132,000	125,852	(6,148)
Charges for services	500	500	1,025	525
Interest	3,800	3,800	1,845	(1,955)
Other	5,315	5,309	4,524	(785)
Total revenues	<u>293,061</u>	<u>293,055</u>	<u>268,734</u>	<u>(24,321)</u>
Expenditures				
Current:				
General government	112,037	112,037	115,848	(3,811)
Public safety	1,102	1,102	1,172	(70)
Public works	71,300	71,300	66,302	4,998
Health and welfare	26,292	26,292	26,092	200
Recreation and cultural	10,000	10,000	10,000	-
Miscellaneous	1,000	3,395	2,638	757
Total expenditures	<u>221,731</u>	<u>224,126</u>	<u>222,052</u>	<u>2,074</u>
Revenues over (under) expenditures	71,330	68,929	46,682	(22,247)
Other financing (uses)				
Transfers (out)	<u>(71,330)</u>	<u>(71,330)</u>	<u>(68,272)</u>	<u>3,058</u>
Net change in fund balance	-	(2,401)	(21,590)	(19,189)
Fund balance, beginning of year	<u>150,011</u>	<u>150,011</u>	<u>150,011</u>	<u>-</u>
Fund balance, end of year	<u>\$ 150,011</u>	<u>\$ 147,610</u>	<u>\$ 128,421</u>	<u>\$ (19,189)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
GARBAGE COLLECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Charges for services:				
Refuse collection fee	\$ 84,090	\$ 84,090	\$ 87,435	\$ 3,345
Expenditures				
Public works:				
Rubbish collection	<u>84,090</u>	<u>84,090</u>	<u>86,330</u>	<u>(2,240)</u>
Net change in fund balance	-	-	1,105	1,105
Fund balance, beginning of year	<u>6,094</u>	<u>6,094</u>	<u>6,094</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 6,094</u></u>	<u><u>\$ 6,094</u></u>	<u><u>\$ 7,199</u></u>	<u><u>\$ 1,105</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

FIRE PROTECTION FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Current property taxes	\$ 19,400	\$ 19,400	\$ 20,293	\$ 893
Expenditures				
Public safety:				
Standby fees	<u>19,400</u>	<u>19,400</u>	<u>20,374</u>	<u>(974)</u>
Net change in fund balance	-	-	(81)	(81)
Fund balance, beginning of year	<u>15,695</u>	<u>15,695</u>	<u>15,695</u>	<u>-</u>
Fund balance, end of year	<u>\$ 15,695</u>	<u>\$ 15,695</u>	<u>\$ 15,614</u>	<u>\$ (81)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
POLICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
State shared revenue	\$ 1,435	\$ 1,435	\$ 1,449	\$ 14
Charges for services - fines	500	500	173	(327)
Other	<u>200</u>	<u>200</u>	<u>35</u>	<u>(165)</u>
Total revenues	<u>2,135</u>	<u>2,135</u>	<u>1,657</u>	<u>(478)</u>
Expenditures				
Public safety:				
Wages, benefits and payroll taxes	52,400	52,400	51,796	604
Supplies	565	565	325	240
Auto expense	4,500	4,500	5,364	(864)
Insurance	10,900	10,900	9,488	1,412
Other	3,100	3,100	2,670	430
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>286</u>	<u>1,714</u>
Total expenditures	<u>73,465</u>	<u>73,465</u>	<u>69,929</u>	<u>3,536</u>
Revenues over (under) expenditures	(71,330)	(71,330)	(68,272)	3,058
Other financing sources				
Transfers in	<u>71,330</u>	<u>71,330</u>	<u>68,272</u>	<u>(3,058)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

STATEMENT OF NET ASSETS ENTERPRISE FUNDS

JUNE 30, 2007

ASSETS	Sewer	Water	Total
Current assets			
Cash and cash equivalents	\$ 22,256	\$ -	\$ 22,256
Investments	-	204,048	204,048
Interest receivable	-	4,249	4,249
Due from other governmental units	1,458,903	-	1,458,903
Special assessments receivable	-	535,952	535,952
Total current assets	1,481,159	744,249	2,225,408
Noncurrent assets			
Construction in progress	747,097	-	747,097
Water system	-	992,000	992,000
Total noncurrent assets	747,097	992,000	1,739,097
Total assets	2,228,256	1,736,249	3,964,505
Liabilities			
Current liabilities			
Interest payable	5,566	6,327	11,893
Current portion of long-term debt	10,500	60,000	70,500
Total current liabilities	16,066	66,327	82,393
Long-term liabilities			
Bonds payable	2,195,500	680,000	2,875,500
Total liabilities	2,211,566	746,327	2,957,893
Net assets			
Invested in capital assets, net of related debt	-	252,000	252,000
Unreserved:			
Unrestricted	16,690	737,922	754,612
Total net assets	\$ 16,690	\$ 989,922	\$ 1,006,612

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

ENTERPRISE FUNDS

STATEMENT OF REVENUES, EXPENSES AND

CHANGES IN FUND NET ASSETS

ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues			
Reimbursements	\$ 38,367	\$ -	\$ 38,367
Operating expenses			
Public works	16,111	32,350	48,461
Operating income (less)	22,256	(32,350)	(10,094)
Nonoperating revenues (expenses)			
Interest revenue	-	11,384	11,384
Interest expense	(5,566)	(45,732)	(51,298)
Total nonoperating revenues (expenses)	(5,566)	(34,348)	(39,914)
Changes in net assets	16,690	(66,698)	(50,008)
Net assets, beginning of year, as restated	-	1,056,620	1,056,620
Net assets, end of year	<u>\$ 16,690</u>	<u>\$ 989,922</u>	<u>1,006,612</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	Sewer	Water	Total
Cash Flows From Operating Activities			
Cash received from customers	\$ 38,367	\$ 79,357	\$ 117,724
Cash payments to suppliers for goods and services	(16,111)	(350)	(16,461)
Net Cash Provided By (Used In)			
Operating Activities	22,256	79,007	101,263
Cash Flows From Capital and Related Financing Activities:			
Principal paid on contracts payable	-	(60,000)	(60,000)
Interest paid on contracts payable	(5,566)	(39,405)	(44,971)
Net Cash Provided By (Used In)			
Capital and Related Financing Activities	(5,566)	(99,405)	(104,971)
Cash Flows From Investing Activities:			
Sale of investments	-	12,110	12,110
Interest on investments	-	8,288	8,288
Net Cash Provided By (Used In)			
Investing Activities	-	20,398	20,398
Net Increase (Decrease) in Cash and Cash Equivalents	22,256	-	22,256
Cash and Cash Equivalents, Beginning of Year	-	-	-
Cash and Cash Equivalents, End of Year	\$ 22,256	\$ -	\$ 22,256
Cash Flows From Operating Activities:			
Operating income (loss)	\$ 22,256	\$ (32,350)	\$ (10,094)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	32,000	32,000
(Increase) decrease in assets:			
Accounts receivable	-	79,357	79,357
Net Cash Provided By Operating Activities	\$ 22,256	\$ 79,007	\$ 101,263

NON-CASH TRANSACTION:

The Township issued debt in the amount of \$2,206,000. Tuscola County is the Treasurer for the issue.

The capital asset acquisition and debt issuance related to this project are non-cash transactions of the Township.

The accompanying notes are an integral part of these financial statements.

**DENMARK TOWNSHIP
AGENCY FUND
BALANCE SHEET
June 30, 2007**

	<u>Agency Fund</u>
	<u>Tax Collection</u>
Assets	
Cash and cash equivalents	<u>14,143</u>
Total assets	<u><u>\$ 14,143</u></u>
Liabilities	
Due to other governments	<u>14,143</u>
Total liabilities	<u><u>\$ 14,143</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Denmark Township (“the Township”) has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists only of the primary government. The criteria for including a component unit include entities for which the government is considered to be financially accountable.

FINANCIAL STATEMENTS

Under governmental accounting standards, the Township is required to present government-wide financial statements (i.e., a statement of net assets and a statement of activities), which are to be reported using the economic resources measurement focus and the accrual basis of accounting. The Township has not presented the required government-wide financial statements, as they have not maintained a list of capital assets or depreciated such assets.

Separate financial statements are provided for governmental and business-type funds. Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus but use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *garbage collection fund* accounts for the contractual services the Township has retained for garbage/trash removal.

The *fire protection fund* accounts for the separate voted millage and the related payments of fire standby fees.

The *police fund* accounts for the separate voted millage and the related operation of the police department.

The government reports the following major enterprise funds:

The *sewer fund* accounts for the activities of the government's sewage disposal system.

The *water fund* accounts for the activities of the government's water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for the general fund and special revenue funds. Budgets are adopted on the modified accrual basis which is consistent with generally accepted accounting principles (GAAP). Any revisions that alter the total expenditures of any fund must be approved by the Township Board.

Budgeted amounts are as originally adopted, or as amended by the Township Board. Budgets are adopted at the activity level for the General Fund and function level for the special revenue funds.

ASSETS, LIABILITIES AND EQUITY

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Receivables and payables

Township property taxes are attached as an enforceable lien on property as of December 1st. Taxes are levied December 1st and are due without penalty on or before March 1st. Real property taxes not collected as of March 1st are turned over to Tuscola County for collection, which advances the Township 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

Property taxes levied in December of each year are recognized as revenue in that fiscal year.

Capital assets

Capital assets, which include property, plant, equipment and public domain (infrastructure) assets, are not reported in the financial statements with the exception of the enterprise funds. Any outlays for capital assets are recorded as expenditures at the time of their purchase, in the applicable fund financial statements for governmental funds. Infrastructure capital assets of the enterprise fund are capitalized as constructed. The assets are depreciated using the straight line method over 40 years.

Long-term obligations

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the Township carried commercial insurance to cover all risk of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated. The following funds had expenditures in excess of appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
General Government			
Township Board	\$ 17,379	\$ 22,047	\$ (4,668)
Township supervisor	26,395	28,819	(2,424)
Elections	3,740	4,953	(1,213)
Board of Review	1,744	1,817	(73)
Public Safety			
Planning-zoning Board of Appeals	1,102	1,172	(70)
Public Works			
Street Lights	5,400	5,723	(323)
GARBAGE COLLECTION FUND			
Public Works	84,090	86,330	(2,240)
FIRE PROTECTION FUND			
Public Safety	19,400	20,374	(974)
POLICE FUND			
Public Safety			
Auto expense	4,500	5,364	(864)

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS

At June 30, 2007, the carrying amount of the deposits (includes cash and cash equivalents and certificates of deposit classified as investments on the financial statements) owned by the Township was \$367,294.

Statutory Authority

The Township is authorized by the Township Board to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- d. Banker's acceptances of United States banks.
- e. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

Investment and deposit risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, none of the Township's bank balance of \$367,294 was exposed to credit risk as none of it was uninsured and uncollateralized.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

4. PENSION PLAN

Beginning July 1, 1991, all appointed officials, elected officials, police chiefs and cemetery custodians of the Township of Denmark are covered by the Denmark Township Pension Plan, a defined contribution pension plan administered by John Hancock Life Insurance Co. Contributions to the plan are made at fixed rates by the employer based upon actual payrolls. Additional contributions may be made by the employee. Benefits vest 100 percent immediately. Plan provisions and contribution requirements are established and may be amended by the Township Board. Employer contributions for the year ended June 30, 2007, amounted to \$11,662, which represents 11.5% of covered payroll. No employee contributions were made.

5. LONG-TERM DEBT

During 1997, Tuscola County issued bonds in the amount of \$1,280,000 to finance the cost of a watermain extension into Denmark Township. The Township has agreed to special assess its property to make payments to the County to cover the principal and interest on the bonds. Final payment occurs in the year 2017. In addition, in 2007 Tuscola County issued bonds in the amount of \$2,206,000 to finance the cost of a sewer extension into Denmark Township. The Township has agreed to charge citizens for sewer services to cover the principal and interest on the bonds.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due in</u> <u>One Year</u>
Contract payable to Tuscola County, dated 1997, with principal installments of \$60,000 to \$75,000 through November 2017 (4.6% - 7.6% effective rate of interest).	\$ 800,000	\$ (60,000)	\$ 740,000	\$ 60,000
Contract payable to Tuscola County, dated 2007, with principal installments of \$10,500 to \$108,000 through October 2047, 4.125% interest.	<u>-</u>	<u>2,206,000</u>	<u>2,206,000</u>	<u>\$ 10,500</u>
Total	<u>\$ 800,000</u>	<u>\$2,146,000</u>	<u>\$ 2,946,000</u>	<u>\$ 70,500</u>

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

There was no cash received for the proceeds of the debt issued in the current year because Tuscola County is the treasurer of the debt.

The aggregate debt service requirements to pay principal and interest on this long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 70,500	\$ 127,493
2009	88,500	123,964
2010	89,500	119,730
2011	90,500	115,419
2012	91,500	111,036
2013-17	498,500	484,570
2018-22	261,500	387,649
2023-27	226,500	344,252
2028-32	276,000	293,330
2033-37	337,000	231,848
2038-42	413,500	156,132
2043-47	<u>502,500</u>	<u>63,814</u>
	<u>\$2,946,000</u>	<u>\$2,559,237</u>

6. INTERFUND TRANSFERS

The interfund transfer from the General Fund to the Police Fund in the amount of \$68,272 is a transfer of unrestricted revenues collected in the General Fund to finance the Police activities, in accordance with budgetary authorization.

The interfund receivable from the General Fund to the Police Fund in the amount of \$597 is the General Fund subsidizes the Police Fund for the accounts payable of the Police Fund at June 30, 2007.

TOWNSHIP OF DENMARK
NOTES TO FINANCIAL STATEMENTS

7. RESTATEMENTS

For the Township's Statement of Net Assets for the Water Fund, prior period adjustments in the amounts of \$1,024,000 and \$184,691 were necessary to properly account for the understatement of capital assets and the overstatement of special assessment receivable during the year ended June 30, 2006. The effect on the Statement of Net Assets net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 217,311
Adjustment for capital assets	1,024,000
Adjustment for revenues	<u>(184,691)</u>
Net assets, beginning of year, as restated	<u><u>\$ 1,056,620</u></u>

* * * * *

**INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

TOWNSHIP OF DENMARK

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes:				
Current property taxes	\$ 122,983	\$ 122,983	\$ 106,997	\$ (15,986)
Trailer park fees	475	475	2,862	2,387
Property tax administration fees	27,988	27,988	25,629	(2,359)
Total taxes	<u>151,446</u>	<u>151,446</u>	<u>135,488</u>	<u>(15,958)</u>
State revenue:				
Sales and use tax	<u>132,000</u>	<u>132,000</u>	<u>125,852</u>	<u>(6,148)</u>
Charges for services:				
Cemetery lot sales	<u>500</u>	<u>500</u>	<u>1,025</u>	<u>525</u>
Interest	<u>3,800</u>	<u>3,800</u>	<u>1,845</u>	<u>(1,955)</u>
Other revenues:				
Zoning appeals	600	600	400	(200)
Other	<u>4,715</u>	<u>4,709</u>	<u>4,124</u>	<u>(585)</u>
Total other revenue	<u>5,315</u>	<u>5,309</u>	<u>4,524</u>	<u>(785)</u>
Total revenues	<u>293,061</u>	<u>293,055</u>	<u>268,734</u>	<u>(24,321)</u>

TOWNSHIP OF DENMARK

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (Continued) BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Total revenues (pg. 16)	\$ 293,061	\$ 293,055	\$ 268,734	\$ (24,321)
Total expenditures (pg. 18)	<u>(221,731)</u>	<u>(224,126)</u>	<u>(222,052)</u>	<u>2,074</u>
Revenues over (under) expenditures	71,330	68,929	46,682	(22,247)
Other financing (uses)				
Transfers out	<u>(71,330)</u>	<u>(71,330)</u>	<u>(68,272)</u>	<u>3,058</u>
Net change in fund balances	-	(2,401)	(21,590)	(19,189)
Fund balance, beginning of year	<u>150,011</u>	<u>150,011</u>	<u>150,011</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 150,011</u></u>	<u><u>\$ 147,610</u></u>	<u><u>\$ 128,421</u></u>	<u><u>\$ (19,189)</u></u>

TOWNSHIP OF DENMARK
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
General government				
Township board	\$ 17,379	\$ 17,379	\$ 22,047	\$ (4,668)
Township supervisor	26,395	26,395	28,819	(2,424)
Elections	3,740	3,740	4,953	(1,213)
Clerk	16,130	16,130	14,903	1,227
Board of review	1,744	1,744	1,817	(73)
Treasurer	24,880	24,880	24,579	301
Cemetery	8,600	8,600	8,270	330
Township hall and grounds	13,169	13,169	10,460	2,709
Total general government	112,037	112,037	115,848	(3,811)
Public safety				
Planning - zoning board of appeals	1,102	1,102	1,172	(70)
Public works				
Roads and drains	6,400	6,400	4,812	1,588
Street lights	5,400	5,400	5,723	(323)
Drain-at-large	59,500	59,500	55,767	3,733
Total public works	71,300	71,300	66,302	4,998
Health and welfare				
Ambulance service fees	26,292	26,292	26,092	200
Recreation and cultural				
Parks	10,000	10,000	10,000	-
Miscellaneous	1,000	3,395	2,638	757
Total expenditures	<u>\$ 221,731</u>	<u>\$ 224,126</u>	<u>\$ 222,052</u>	<u>\$ 2,074</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

December 17, 2007

To the Township Board
Richville, Michigan

We have audited the financial statements of the each major fund, and the aggregate remaining fund information of the ***Denmark Township, Michigan*** as of and for the year ended June 30, 2007, which collectively comprise a portion of the Township's financial statements, and have issued our report thereon dated December 17, 2007. The report on the basic financial statements dated December 17, 2007, was adverse because management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed numerous material adjustments (which were approved and posted by management) to adjust the Township's records to the appropriate balances. These adjustments were in the areas of cash, accounts payable, prepaids, capital assets, debt, and receivables.
Cause:	The Township has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.
Effect:	As a result of this condition, the Township's accounting records were initially misstated by amounts material to the financial statements.
View of Responsible Officials:	The Township will review the accounting adjustments that were necessary in order for the financial statements to be in accordance with GAAP and plan accordingly to reduce these for subsequent year audits.

Finding 2007-3 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.
Condition:	As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. These include an individual authorized to setup vendors and process accounts payable, setup new employees and process payroll information, and initiate manual journal entries and post them. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.
Cause:	This condition is a result of the Township's limited resources, and the small size of its accounting staff.
Effect:	As a result of this condition, the Township is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.
View of Responsible Officials:	The Township understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation of duties does not warrant the benefit of the lower risk obtained. However, management will maintain a heightened awareness and continually review the mitigating controls over these areas.

Finding 2007-4 – Establishment and Reconciliation of a General Ledger

Criteria:	A strong system of internal controls mandates the establishment and reconciliation of general ledger account balances to subsidiary ledgers or other adequate supportive documentation on a periodic basis.
Condition:	The Township does not maintain a general ledger system.
Cause:	The Township experienced problems with their accounting software in the current year and did not take any actions to remedy the problem in order to maintain a general ledger.
Effect:	As a result of this condition, the Township has inadequate accounting records and is unable to know the true financial position of the Township during the year. This places the Township at risk of having assets misappropriated and not being detected by Township officials.
View of Responsible Officials:	The Township understands the increased risk due to the lack of the general ledger. Township officials are in the process of examining the options available to remedy this issue.

Finding 2007-5– Distributing of Tax Collections

Criteria:	The State of Michigan requires that local municipalities that collect taxes on behalf of others distribute those collections in a timely manner. Failure to comply with this requirement needs to be reported by the auditor to the State of Michigan.
Condition:	The Township does not maintain an adequate system for determining that all tax collections were distributed properly. Records and supporting documentation could not be obtained by the auditor to provide assurance that the distributions made were correct.
Cause:	The Township has not maintained supporting documentation to provide assurance that distributions made were proper.
Effect:	As a result of this condition, the Township has no support for distributions made to its funds and to other entities. This increases the risk that distributions made could be incorrect and Township Officials will be unaware of the situation.
View of Responsible Officials:	Township officials are aware of this situation and are considering their options to remedy this situation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material

weaknesses. However, we do consider the significant deficiencies 2007-1 through 2007-5 above to be material weaknesses.

Denmark Township's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Denmark Township's** response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Township Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



December 17, 2007

To the Township Board
Denmark Township

We have audited the financial statements of each major fund, and the aggregate remaining fund information of Denmark Township for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 21, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Denmark Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Denmark Township's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Denmark Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Denmark Township during the year that were both significant

and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Denmark Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the journal entries required to convert the Township's cash based records to accrual based financial statements indicate matters that could have a significant effect on the Denmark Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Denmark Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee, the governing body, and management of Denmark Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.